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# Economic Development and the World Trade Organization After Doha

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## Abstract

Hoekman analyzes what actions could be taken in the context of the World Trade Organization's Doha negotiations to assist countries in reaping benefits from deeper trade integration. He discusses the policy agenda that confronts many developing countries and identifies a number of focal points that could be used both as targets and as benchmarks to increase the likelihood that WTO negotiations will support development. To achieve these targets, Hoekman proposes a number of negotiating

modalities for both goods and services-related market access issues, as well as rule-making in regulatory areas. Throughout the analysis, the author refers to the work of J. Michael Finger, whose numerous writings in this area have not only greatly influenced the thinking of policymakers and researchers on the interaction between trade policy, economic development, and the GATT/WTO trading system, but also provides a model for how to pursue effective policy research.

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This paper—a product of Trade, Development Research Group—is part of a larger effort in the group to analyze the development aspects of WTO rules. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Paulina Flewitt, room MC3-333, telephone 202-473-2724, fax 202-522-1159, email address [pflewitt@worldbank.org](mailto:pflewitt@worldbank.org). Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The author may be contacted at [bhoekman@worldbank.org](mailto:bhoekman@worldbank.org). June 2002. (33 pages)

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## **Economic Development and the WTO After Doha\***

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## **Economic Development and the WTO After Doha**

The November 2001 “Doha Development Agenda” puts development concerns at the core of WTO deliberations. The challenge confronting the trade and development communities—national trade officials, development agencies and NGOs, and their constituencies—is to achieve an outcome that supports poverty-reducing economic growth. This is not a new issue. Analyzing what would constitute a good outcome for development has been an important focus of Mike Finger’s policy research over a 25-year span. His work identifies many desirable elements of such an outcome, including liberalization of market access on a nondiscriminatory basis; disciplining the use of instruments of contingent protection such as antidumping; and adopting a more development-oriented approach to the design and implementation of WTO rules. How to achieve these objectives has also been the focus of his work—Finger has consistently emphasized that socially desirable reform requires policy research that mobilizes stakeholders who stand to gain from socially-beneficial changes in the status quo.

A major difference between the situation that prevails today and that in the 1970s when Mike Finger wrote his seminal papers on the political economy of GATT negotiations is that developing countries have unilaterally reduced the average level and dispersion of protection. These reforms, and the associated expansion in export production that they generated, have increased the interest of developing countries to play the GATT/WTO game of reciprocity. Not doing so in the past proved costly to developing countries. Finger (1974, 1976a) documented how, despite the MFN rule, GATT negotiators chose commodities so as to ‘internalize’ the benefits of tariff cuts. Thus, negotiated reductions primarily benefited so-called principal suppliers, implying that the developing country strategy of not participating in reciprocal exchanges of concessions led to fewer reductions of tariffs affecting their exports. Finger (1975, 1976b) and Finger and Kreinin (1976) also showed that the flip side of ‘special and differential’ treatment—relying on unilateral preferences such as the Generalized System of Preferences (GSP) and the US offshore assembly provisions—was of limited value to developing countries.

Finger has long pointed out that tariff reductions—preferential or not—on a developing country's exports are less important than those on its imports. He has also been a consistent critic of the idea that the GATT/WTO process will lead to good trade policy (Finger 1991b; Finger and Winters, 1998). Among the first to seriously analyze the economics of antidumping and safeguards (Finger 1981b; Finger, Hall and Nelson, 1982; Finger 1993a), more recently he focused attention on the risks of addressing domestic regulatory policies in the WTO if this entails adoption of standards applied in high-income countries. These can be costly—and perhaps inappropriate—for poor countries to implement (Finger and Schuler, 2000; Finger and Nogues, 2001).

The implementation problems associated with a number of Uruguay Round agreements, combined with the persistence of tariff peaks and OECD production and export subsidies for agricultural commodities has led to a 'development credibility' deficit for the WTO. The extent to which remaining market access barriers are removed, the development relevance of WTO rule-making is improved and implementation issues and constraints are addressed will determine whether the Doha Development Agenda lives up to its name. As noted in Finger (1979), the GATT process involves exporters seeking market access abroad pressing import-competing sectors to concede it at home. This dynamic began to break down in the late 1980s when US legislation provided an alternative route for exporters to open foreign markets – Section 301, which authorized unilateral trade sanctions against trade-restricting partners (Bhagwati and Patrick, 1990; Finger, 1991a). With the spread of regional integration agreements (Finger, 1993b) and duty-free treatment provisions for imports used in export production, many multinationals have little incentive to invest resources in support of traditional merchandise trade liberalization. As a result, reciprocity must be sought increasingly in other areas such as services and domestic regulatory policy commitments. The latter are more complex than tariffs and quotas to negotiate.

The basic rules of the GATT—progressive liberalization of bound tariffs and non-discrimination—generally ensured that in the reciprocal exchange of “concessions” a country would not make mistakes. It benefited from its own reductions of import restrictions and from those of its negotiating partners. A country could therefore safely delegate authority to its negotiators (the agents in the GATT game) to make decisions on

behalf of principals. There was little need for oversight from civil society or even from government officials charged to evaluate the national economic interest as the outcome would generally be welfare improving (although certainly not optimizing). This is not the case when it comes to domestic regulation. It is not easy—and perhaps impossible—to trade ‘concessions’. Thus, negotiators have focused instead on the identification of specific rules that should be adopted by all. However, as Finger pointed out in regard to the Uruguay Round, the intellectual property one country has to nurture may be quite different from that of another. The customs system that makes sense will differ depending on the problems a customs administration faces. Thus the conclusion that in contrast to traditional trade liberalization, when it comes to regulation, one size does not fit all (Finger and Nogues, 2001).

An important conclusion emerging from Finger’s work is the need for the research community in developing countries to engage in an identifying what is in the national interest and to mobilize support for better policies. The need for such policy research and engagement has been a consistent theme in Finger’s writing (Finger 1981a, 1982, 1986; Finger and Olechowski, 1987). So has been the corollary emphasis on the need for research leadership by international organizations such as UNCTAD and the World Bank—to name two organizations for which Finger worked during his career—and the importance of strengthening the analytical capacity of local think tanks and policy institutes through collaborative research projects.

The policy impact of Finger’s research on the lessons of the Uruguay Round for developing countries has been enormous. His work on other aspects of the GATT/WTO has been very influential among his peers, although it has unfortunately had less of an impact on policymakers (the spread of antidumping being the most obvious example!). This paper distils some of the lessons offered by Finger’s work over several decades and applies them to the question how the Doha Development Agenda could be used to increase the ‘development relevance’ of the trading system for low-income countries. I start with a brief overview of the agenda at the national level (Section 1), as this is critical to answering the question—posed in Section 2—what actions could be taken at the multilateral level to help countries to benefit from deeper trade integration into the world economy. Section 3 identifies a number of focal points that could be used both as targets

and as benchmarks to determine the extent to which the outcome of negotiations supports development. Section 4 concludes.

### **1. The Trade Agenda at the National Level**

Realizing the potential gains from trade is a complex and difficult process. Despite efforts to liberalize trade, success in integrating into the world economy is far from universal. In part this reflects continued anti-export biases created by remaining border trade policies and the absence of complementary measures that are important to create an enabling environment for supply-side responses to changed incentives are needed. ‘Behind the border’ barriers to trade integration—for example, lack of access to finance, high cost and low quality distribution and transport services—can be more important obstacles than border barriers such as tariffs. Absent supporting health and education services that expand human capital, the long-term dynamic gains of trade liberalization will be limited.

An important issue is therefore to supplement initiatives to reduce the average level and the dispersion of border protection with measures to lower trade transactions and operating costs. Regulatory reforms may be called for to ensure that supply responses to liberalization are efficient, equitable and enduring. Enhancing the efficiency and competitiveness of service sectors—both public and private, promoting access to information and technology, strengthening trade-related institutions such as customs and standardization bodies, and improving transport infrastructure are all elements of the trade agenda, although priorities will differ depending on country circumstances. In many low-income countries priority areas for action are to strengthen institutions such as customs, reduce transport costs and ensuring that export marketing and product standards are satisfied. In countries where tariffs and other trade barriers remain high, the priority is likely to be lower trade restrictions. Table 1 provides a summary illustrative matrix mapping ‘types’ of countries against priority areas and activities that may be called for. There is great diversity across countries. Determining what are priorities requires country-specific analysis. In all cases there will be a variety of complementary actions needed to benefit from trade policy related reforms, in particular macroeconomic stability, prevention of significant real exchange rate appreciation, and mechanisms to deal with external shocks and distributional conflicts.



**Table 1: Illustration of possible priorities in different types of countries**

Country type	Traditional trade policies		Behind the border trade policies	
	Policy	Institutions	Policy	Institutions
Low income: weak institutions, high fiscal dependence on tariffs	Reduce tariff dispersion; develop domestic tax bases	Strengthen customs; consider free trade zones as catalyst for exports	Enhance efficiency of transport and transit regimes; maintain competitive real exchange rate	Strengthen national capacity to design trade and regulatory policies; Upgrade product standards bodies
Low income: strong role of the State, high protection; high transactions costs	Reduce border barriers significantly; reduce tariff dispersion	Reduce red tape; adopt drawback or temporary admission customs schemes	Promote competition in service industries, including through FDI and privatization	Strengthen standards setting and certification bodies. Efficient regulation to achieve social objectives
Transition economy	Maintain relatively low and uniform tariffs	Develop customs and related infrastructure	Develop legal and regulatory regimes for services	Develop national capacity to design/enforce regulatory policies
Middle income, small, low average protection	Lower tariff peaks	Adopt ex post controls to facilitate trade	Enhance technology and E-commerce-related policies	Strengthen enforcement of prudential regulation
Middle income, large, high protection	Reduce average and dispersion of protection	Reduce red tape; implement trade facilitation measures	Services liberalization; end monopolies; develop competition policy	Pro-competitive and prudential regulation; establish competition authorities

*Border barriers remain important in many low-income countries*

While significant liberalization has occurred in developing countries. However, traditional trade policies continue to imply significant anti-export biases in South Asia and the Middle East. Average (unweighted) tariffs in these regions are in the 20 percent range or higher, and still have far to fall in order to attain the 10 percent average found in many nations in East Asia, Latin America and Europe and Central Asia (Table 2). Tariff revenue remains important for many low-income countries. Pursuing further reform of the level and structure of the tariff requires development of alternative domestic tax bases and efforts to ensure that a reliance on revenue tariffs does not needlessly distort resource allocation incentives—e.g., move towards uniformity (Tarr, 2002). In the small number of countries where nontariff barriers continue to be used, tariffication will generally generate revenues. In considering further trade liberalization, determining the incidence of the tariff structure and the implications of this incidence—especially for the poor—is important in designing and mobilizing support for reform.

**Table 2: Average Unweighted Tariff Rates By Region**

Region	1978-80	1981-85	1986-90	1991-95	1996-99
Africa	38.2	29.3	26.9	22.3	17.8
East Asia	23.5	26.9	20.7	14.6	10.4
Latin America	28.1	26.4	24.1	13.9	11.1
MENA (ex-OPEC)	29.6	24.6	24.1	22.9	19.3
South Asia	NA	71.9	69.8	38.9	30.7
Europe/Central Asia	12.0	21.6	14.9	8.1	10.1
Industrial economies	11.9	8.9	8.2	6.8	6.1

*Source:* World Bank.

**Table 3. Frequency of core NTBs in developing countries, 1989–98**

Country	1989–94	1995–98
	%	%
East Asia and the Pacific (7)	30.1	16.3
Latin America and the Caribbean (13)	18.3	8.0
Middle East and North Africa (4)	43.8	16.6
South Asia (4)	57.0	58.3
Sub-Saharan Africa (12)	26.0	10.4

*Note:* Parentheses indicate the number of countries per region for which data are available.

*Source:* World Bank.

The ‘border agenda’ in many low-income countries is more institutional than trade policy related. Although non-tariff barriers have come down substantially in most developing countries (with the exception of South Asia)—a major achievement (Table 3)—inefficiencies in public administration are often an impediment to trade. Customs clearance and logistics related transactions costs can be a major disincentive for investment in tradable sectors, especially in activities that are time sensitive or where it is important to be integrated into global production networks that operate on the basis of just-in-time supply chain management. Exporters must have access to imported intermediate inputs at world market prices in order to be competitive. In countries where tariffs continue to be needed for revenue mobilization this requires well-functioning customs regimes that refund taxes paid on imported inputs, or, preferably, allow exporters to import inputs duty free (so-called temporary admission or green channel treatment). Many low-income countries do not have well-functioning drawback regimes, creating anti-export bias.

### *The 'behind the border' trade agenda*

A supporting legal and regulatory environment is vital for trade liberalization to serve as an engine of growth. As mentioned, this goes far beyond trade-related policy. Elements of the associated 'behind the border' *trade* agenda that affect the investment climate include policies and institutions that support the participation of national firms on international markets and measures to enhance their competitiveness by ensuring access to crucial services inputs—both public and private.

Key areas in many low-income countries are product standards and services. Modernization of standards systems, including institutions and infrastructure for certification and conformity assessment is needed to operate in the current global trade environment. Meeting international standards for quality, health and safety is increasingly a precondition for contesting international markets and has become a major factor constraining the ability of many exporters in least developed countries (LDCs) from benefiting fully from recent preferential access initiatives. Many low-income countries are not adequately equipped to deal with rapidly tightening product standards and labeling requirements and confront major investment requirements in order to do so (Henson et al. 2001; Wilson, 2002).

The availability of low cost, high quality services is a critical determinant of the competitiveness of national firms. An efficient, diversified and well-regulated financial sector is necessary to fund investment needs and allocate resources to where they have the highest returns. Telecommunications are both a vital intermediate input and crucial to the dissemination and diffusion of knowledge. Transportation costs are a major determinant of competitiveness—the cost of international transport is often above the applicable tariff in export markets, and intra-national transport costs can be a multiple of international costs (Fink, Mattoo and Neagu, 2000). Research has shown that measures aimed at reducing the cost of services that facilitate trade can easily have economy-wide welfare benefits that are a multiple of those associated with merchandise liberalization (Deardorff, 2001; Stern, 2002), and, indeed, may be a precondition for benefiting from such liberalization.

Initiatives to strengthen private and public service institutions that support export development—access to credit, modernization of product standards conformity assessment systems—and to reduce the cost of key inputs (transport, telecoms, insurance, finance, etc.) should be pursued in the context of an overall national strategic framework that identifies where the payoff to reform and public investment is largest. Careful policy analysis is needed to identify both priorities and options for reform. In many cases pro-competitive reforms will be needed, as greater competition (contestability of markets) is a major engine for reducing prices and increasing the variety of goods and services. The competition agenda is often a complex one that involves numerous policy instruments, from liberalization of trade and elimination of entry restrictions through pro-competitive regulation and enforcement of competition law.

Whatever the priorities are, in all countries there is a need for complementary macroeconomic, education, health and technology policies. Separating out the trade agenda from the development agenda more broadly defined is difficult, if not impossible. The key need, one emphasized by Finger (2001), is that trade is integrated into the national development strategy. Only then will an informed assessment be possible regarding if and how issues should be addressed in the WTO.

## **2. What can the WTO do?**

The WTO has a potentially important role in promoting development prospects by reducing trade barriers, helping governments to move towards good trade policies, improving the development relevance of rule making and dealing more effectively with implementation constraints confronted by poor members. The WTO can do very little to assist governments and civil society to address the numerous behind the border policy and institutional challenges confronting low-income countries that were briefly summarized above. What its members can do is to use it to reduce market access barriers and ensure that the rules of the trade game support the development prospects of poor countries: i.e., do not require governments to allocate resources to non-priority areas or constrain them from adopting national welfare-enhancing policies.

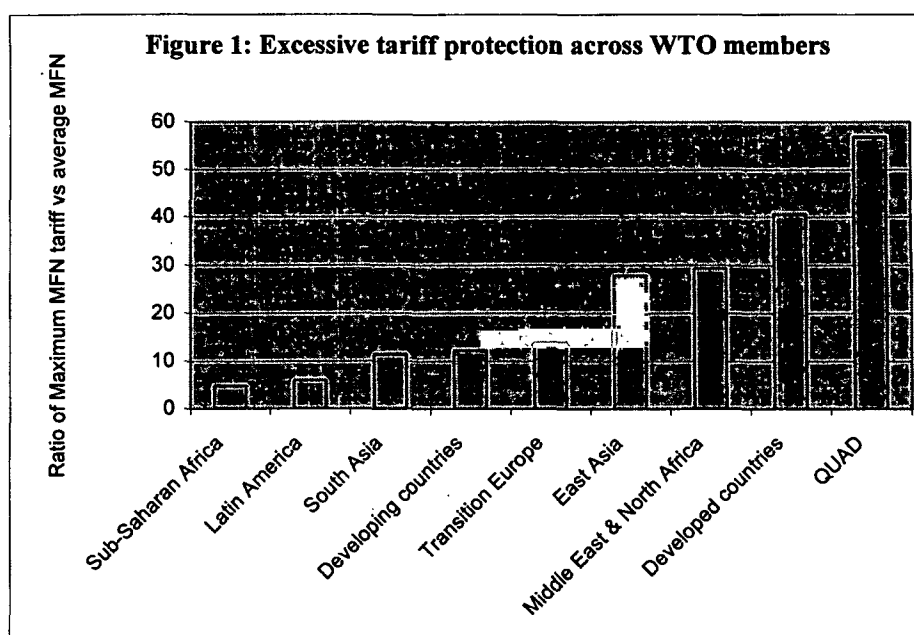
### *Market access for goods and services*

A great deal of research has documented that there is still a large market access-related agenda. Further liberalization will significantly increase real incomes and reduce poverty in developing countries (Finger and Schuknecht, 2001; Hertel, 2000; Oxfam, 2002; World Bank, 2001). The extent to which developing and industrialized country trade barriers are lowered, tariff peaks and escalation removed, export subsidies eliminated and production subsidies replaced with less trade distorting measures will define to an important extent the development relevance of WTO talks. Such actions will primarily benefit consumers and taxpayers in the countries pursuing reform, whose gains would greatly exceed the losses of affected workers and industries.

Protection in OECD countries currently imposes costs on developing countries that exceed official development assistance flows (some \$45 billion per year). Benefits to developing countries from abolishing their own protection are over \$60 billion. Global protection of trade in merchandise costs the world economy some \$250 billion (Hertel and Martin, 2000). If current policies restricting trade in services are considered, the figure can easily double or more (Stern, 2002). Add in the trade chilling effect of instruments of contingent protection (antidumping, safeguards) and the real income gains from elimination of redundant red tape at borders and it is clear that the benefits of reducing market access barriers are enormous.

Although average most-favored-nation (MFN) tariffs in the Quad (Canada, the EU, Japan and the US) have fallen to about 5 percent, tariffs for some commodities are over 100 percent. Such tariff peaks are often concentrated in products that are of export interest to developing countries. They include major agricultural staple food products, such as sugar, cereals and fish; tobacco and certain alcoholic beverages; fruits and vegetables; food industry products with a high sugar content, clothing and footwear. The Uruguay Round actually increased tariff dispersion, as tariffication of non-tariff barriers (NTBs) in agriculture led to the imposition of high duties on agricultural products that had previously been quota constrained. As a result, tariffs that are more than three times higher than the average MFN duty are not uncommon in the Quad. Over 30 percent of LDC exports and 15 percent of all developing country exports are potentially affected by a tariff above 15 percent in the Quad (Hoekman Ng and Olarreaga, 2002).

Tariff peaks are also common in developing country tariff schedules, adversely affecting South-South trade. Bangladesh, Costa Rica, Egypt, India, Mexico, Morocco, Pakistan, Poland, Ukraine and Zimbabwe (among others) have tariffs above 200 percent for some products. However, on average, tariff peaks (relative to average levels of protection) are higher in OECD nations—where the highest tariffs are on average 40 times the average tariff, whereas among developing countries, the ratio is 12. For the Quad, the ratio is 55. On the other end of the spectrum are Sub-Saharan African countries for which this ratio is only around 5—indicating a much more uniform structure of protection (Figure 1).



Source: Hoekman and Olarreaga (2002).

Moreover, the tariff structure of developed countries shows significant tariff escalation, so that market access for more processed products (embodying greater value added) is more restricted. For example, fully-processed manufacturing food products face tariffs twice as large as products in the first-stage of processing in the EU and Japan, with final goods confronting an average MFN tariff of 24 and 65 percent, respectively. In Canada the ratio is even higher: tariffs on fully processed food products are 12 times higher than for 1<sup>st</sup> stage processed products (the MFN tariff on fully processed is 42

percent).<sup>1</sup> Trade preferences for developing countries tend to be limited for tariff peak items as these are by definition ‘sensitive’ products that are often excluded or subject to some type of quantitative limitation.

That said, for many products exported by low-income countries, tariffs in high-income countries are zero as a result of GSP schemes, the EU Everything But Arms (EBA) initiative and the US African Growth and Opportunity Act.<sup>2</sup> What matters for the countries benefiting from such preferential access are the conditions that must be satisfied to obtain zero-duty treatment—in particular the rules of origin. These are generally recognized to be a major factor reducing the value of preferences. Brenton and Manchin (2002) demonstrate that EU rules of origin are so restrictive as to induce between 35 and 45 percent of Central and East European exports of clothing—which in principle have complete duty-free access to the EU—to enter the EU under a special customs regime, so-called outward processing. This allows them to avoid documenting that rules of origin have been met, because the regime applies to products that use EU inputs.

The downsides of preferential trade are well known—many of them pointed out by Finger long ago when the GSP was first introduced and efforts were being made to create a New International Economic Order (Finger and Kreinin, 1976). They are uncertain, subject to unilateral change or withdrawal, and can give rise to serious trade diversion. Similar problems as far as excluded countries are concerned are raised by preferential trade agreements (Winters, 2001). For the ‘non- or less-preferred’—those without GSP status or those who obtain less favorable treatment than comparators (including FTA partners)—the challenge is to reduce the margin of discrimination and thus the global welfare reducing trade diversion associated with preferential trade.

The market access-related policy agenda also includes contingent protection (antidumping and safeguards), removal of restrictions on trade in services, eliminating export subsidies and eliminating redundant red tape costs associated with enforcement of product standards. As noted by Finger, Ng and Wangchuk (2001), not only have developing countries become frequent users of antidumping, but on a per dollar of import

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<sup>1</sup> Figures are from Hoekman, Ng and Olarreaga (2001).

<sup>2</sup> Although only EBA eliminates tariffs on *all* tariff lines, albeit only for LDCs and with long transition periods for three critical products—bananas, rice and sugar. Most preferential schemes exclude or continue to restrict products of major export interest to beneficiary countries.

coverage basis they are the most intensive users of antidumping (Table 4). There is a huge market access agenda in services trade, one that spans foreign direct investment as well as cross-border trade, and where to date only limited progress has been made in the WTO (Mattoo, 2001).<sup>3</sup> Possible approaches towards pursuit of the broader market access agenda are discussed below in Section 3.

**Table 4: Antidumping Initiations Per US Dollar of Imports 1995-99**

Country/Economy Initiating	Against All Economies	
	No. of Antidumping Initiations	Initiations per US dollar of imports Index (USA=100)
Argentina	89	2125
South Africa	89	2014
Peru	21	1634
India	83	1382
New Zealand	28	1292
Venezuela	22	1174
Australia	89	941
Colombia	15	659
Brazil	56	596
Israel	19	418
Chile	10	376
Indonesia	20	330
Mexico	46	290
Turkey	14	204
Korea	37	185
Canada	50	172
European Union	160	130
United States	136	100
Malaysia	11	97

*Source:* Finger, Ng, and Wangchuk (2001).

#### *Rule-Making: The Domestic Regulatory Agenda*

The Single Undertaking approach in the Uruguay Round led to the inclusion into the WTO of rules in many areas of a regulatory nature. This was the culmination of a process started in the Tokyo Round (1973-9). It shows few signs of abating. Negotiations are to be launched in 2003 on competition law, FDI policy, transparency in government procurement and trade facilitation, assuming agreement is reached on the modalities. Efforts are also likely to expand the ambit of the WTO in areas such as environmental

<sup>3</sup> Walmsley and Winters (2002) estimate the global gains from allowing temporary entry of both skilled and unskilled labor services equivalent to 3% of the current workforce in OECD countries would be some 1½ times greater than the gains from merchandise liberalization.



policy. Such regulatory issues have become more prominent on the WTO agenda because the liberalization of traditional trade policy instruments increased the visibility of differences in national regulatory regimes. Calls for deeper integration at the multilateral level range from coordinated application of national policies to the harmonization of regulatory regimes. Such harmonization is sometimes held to be necessary to ensure 'fair trade' or an equality of competitive opportunities for foreign and domestic firms.

A key question from a development perspective is to determine the rationale for proposals to pursue deeper integration, and, if so, whether the WTO is the appropriate forum for this. In this connection one key criterion is to determine whether a particular regulatory policy is being—or can be—used to restrict market access. Thus the traditional WTO criterion for inclusion of an issue on the agenda: whether a policy is trade related, i.e., impedes market access or distorts competition on a third market. Regulatory measures can be a substitute for explicit barriers (e.g., product standards, regulation of interconnection prices in telecoms, transport safety standards, access slots to sea and airports, and so on). In principle, multilateral rules on preventing protectionist abuse of such regulatory standards can be warranted in order to ensure market access. Such rules may lead to reciprocal benefits similar to traditional trade liberalization: greater contestability of domestic markets and improved market access abroad (regulatory barriers in developed country markets can have major implications for developing country exporters. The challenge is to ensure that rules do not constrain the ability of nations to achieve their regulatory objectives, i.e. to separate what is legitimate regulation from protectionist abuse. In theory, an unbiased 'necessity test' could be envisaged as a way to do this—i.e., a mechanism to determine whether a specific policy is necessary to achieve a particular objective (Mattoo and Subramanian, 1998). However, in practice, it is difficult to conceive of making this binding, given the associated need for litigation and intrusive determinations by external agents such as WTO panels. Consequently, some kind of sectoral guidelines or limited harmonization may be unavoidable. In practice, as much of the market access-related regulatory agenda pertains to service industries, this is an area that will need to be addressed in the GATS context. The challenge will be to ensure that the focus is indeed on regulatory measures where the link to explicit barriers (market access) is clear cut. In cases where it is not or where there is a very asymmetric

market access agenda (e.g., intellectual property), harmonization will often not be desirable in any event; and questions should be raised regarding the appropriateness of including the policy areas in the WTO.

From a development perspective there are at least two additional considerations. It is often argued that a major function of international agreements is to overcome domestic political economy constraints that prevent the adoption of welfare-improving policies. Thus, one can ask whether proposed regulatory rules make sense from a national perspective in terms of addressing priorities even if there are no externalities or market access considerations. Another question is whether there are overall benefits from engaging in negotiations on subjects that are not deemed to be priorities, because of expected payoffs in other areas. That is, does it make sense to pursue linkage strategies? Answering these questions requires policy analysis to determine the implications of what is on the table.

Conceptually, both questions are straightforward. In practice, answering them is very difficult and will require pro-active engagement by national stakeholders and extensive policy research. Both questions go to the heart of the political economy problem confronting developing countries in the Doha Development Agenda talks: how to mobilize constituencies at home *and* abroad that will support market access liberalization and the adoption of development supportive WTO rules. The linkage question boils down to how to design a socially beneficial grand bargain scenario—what can and should be offered in the context of WTO talks in order to obtain a desirable outcome? Determining the *net* national benefits of a package of proposals requires taking into account losses incurred by losers as well as benefits to those who gain, as well as the need for (and cost of) compensation mechanisms. Benefits will depend on the payoff to own reforms implied in the package, and the value of the package to trading partners. The latter will determine the feasible quid pro quo in terms of trading partner concessions on market access and on rules. This in turn will be a function of the intensity of interest and the (lobbying) power of affected groups that the foreign negotiators care about—their multinationals, NGOs, unions, etc. (Leidy and Hoekman, 1993).

Many have argued that the domestic regulatory issues that have been proposed for inclusion on the WTO agenda are not priorities for low-income countries and risk

diverting scarce administrative and political resources from those that have higher development payoffs (e.g., Winters, 2002; Hilary et al., 2002). It has also been argued that the Uruguay Round implementation experience suggests that the WTO needs to change its modus operandi when it comes to the negotiation and enforcement of regulatory rules that require significant investment of real resources by poor countries (Hoekman, 2002). A strategy of “just say no” on new issues may make good sense if a cost-benefit analysis suggests that the net benefits are less than what would be feasible if resources are invested elsewhere. And, it must be recognized that scarce policymaking and administrative resources in many low-income countries implies there are opportunity costs associated with an expansion of the negotiating agenda (as policymakers will have their time diverted away from issues that are more important for the country) (Winters, 2002).

However, account should also be taken of another type of opportunity cost. Finger’s work has demonstrated clearly that the mercantilist dynamics that drive the WTO require developing countries to bring ‘concessions’ to the table if they are to induce partners to liberalize politically sensitive sectors. It is important that what is offered be in the national interest, i.e., involve policy commitments that are seen to be desirable. It may well be that enough is available to ‘trade’ on the market access agenda, especially if account is taken of what developing countries have to offer on services. But it may not be. Despite the call to take development seriously, political realities may require engagement in areas that are not priorities. If so, it can be argued that any rule in a particular area should be beneficial to (supportive of) development (Hoekman, 2002). Issue linkage involving gains in one area (e.g., market access) in return for agreement in other areas that imply a welfare loss should not be accepted.

In order to determine how to proceed, developing countries must have the capacity to define and to analyze negotiating positions in the light of national development objectives. Concerned groups must know how they will be affected and should have direct access to their “agent” in the negotiations (i.e., they must be represented). In some areas there is inadequate understanding of what makes development sense. As Finger has argued with respect to Uruguay Round issues, poor countries have yet to attempt to create intellectual property regimes that makes traditional

knowledge into a negotiable and defensible asset. Nor have they identified the alternative options that can be used to upgrade and enforce national product, health and safety standards, or to regulate service sectors that are subject to market failures. The same can be said for issues such as competition law or trade facilitation. In many areas, the trial and error experience—the assessments of the real-world impacts of alternative policy options—that can inform the effective incorporation of the development dimension into multilateral rules does not exist. As discussed below, this has implications for the types of disciplines that might be negotiated.

### **3. Development Benchmarks, Focal Points and Negotiating Modalities**

Targets and focal points for negotiations can help increase the probability that WTO rules and negotiating outcomes support development. Much of Finger's work has focused on generating economically meaningful numbers to assess the outcome of GATT/WTO negotiations and the implications of national trade policies.<sup>4</sup> Mention can also be made of the effort at the World Bank in the 1980s under his leadership to calculate coverage ratios and frequency indices to quantify the prevalence and incidence of nontariff barriers (Nogues, Olechowski and Winters, 1986). Such data are critical in mobilizing support for—and monitoring progress of—reform.

General indicators of success in making the Doha Development Agenda a reality can be easily identified: (i) ownership of negotiated agreements by constituencies in developing countries (with the corollary that substantial agreement exists that multilateral disciplines will help address national development priorities, i.e. there is a high 'return on investment'); (ii) significantly improved market access; and (iii) more effective 'aid for trade'. Achieving these outcomes will require a great deal of effort by developing countries to build support for reforms in OECD countries and at home. Identifying benchmarks regarding what would be Pareto-improving from a development perspective and negotiating modalities to attain them can help making the Doha development agenda a reality.

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<sup>4</sup> E.g., Finger, 1974, 1976a; Finger and Schuler, 2000; Finger, Ingco and Reincke, 1996; Finger, Ng, and Wangchuk, 2002.

### *Market Access Benchmarks and Formulae*

Because developing country exports are disproportionately affected by tariff peaks (products subject to peaks represent 15 to 30 percent of total LDC exports to the US, EU, Japan and Canada), their elimination should be high on the WTO agenda. A benchmark here could be the ratio of maximum to average tariffs for WTO members. Given that in many developing countries the ratio is five—e.g., Sub-Saharan Africa and Latin America—compared to an average of 40 in OECD countries (see above)—the benchmark should be less than five—e.g., three. This would be directly beneficial to developing countries in market access terms by reducing peaks and help improve efficiency by lowering the dispersion of effective protection in WTO Members. It would also have indirect benefits. Assume a benchmark is also agreed for a reduction in the average level of tariffs—say 50 percent, as in the Kennedy Round. Then, as the average tariff declines, the maximum tariff would also have to decline, indirectly providing further benefits to countries with limited ability (market power) to negotiate tariffs down on their exports through request-offer bargaining (Hoekman and Olarreaga, 2002). This is a major advantage of a formula-based negotiating process.<sup>5</sup>

The use of tariff-cutting formulae such as the one just discussed can be an effective means of moving towards greater uniformity of national rates of protection, which is very desirable from a development perspective (Tarr, 2002). Formulae were not used in the Uruguay Round, except in the context of so-called zero-for-zero negotiations, where the aim was to move tariffs to zero for certain products conditional on a large enough set of WTO members agreeing to do this,<sup>6</sup> and in agriculture, where targets were set for the average cut in tariffs (36 percent), with minimum cuts of 15 percent. The Uruguay Round showed the need for care in the formulation of tariff reduction objectives—a 36 percent average cut is different from a 36 percent cut in the average.<sup>7</sup>

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<sup>5</sup> As first noted by Finger (1974, 1976a), in GATT negotiations the ‘concessions’ offered by countries to each other were largely on items on which they were the ‘principal’ supplier, that is, there was a large degree of internalisation of the benefits measures in trade volume terms. In the Uruguay Round, Finger found that the balance of concessions made and obtained, again in a mercantilist sense, was skewed towards high-income countries (Finger, Ingco and Reincke, 1996; Finger and Nogues, 2001).

<sup>6</sup> An important example was the Information Technology Agreement—see Hoekman and Kostecki (2001).

<sup>7</sup> As noted by Francois and Martin (2002b), the former can be achieved by undertaking very high

While the request-offer approach helps to liberalize trade, it may increase the variance in protection. Formulae to reduce dispersion in protection and move higher rates down more than lower ones were used in the Tokyo Round (1973-9), as well as earlier rounds. The experience with the use of formulae illustrates that this is a viable technique, but that the outcome depends substantially on the magnitude of exemptions that are invoked by countries (Baldwin and Clarke, 1988). In order to achieve greater uniformity of protection as well as a decline in the average MFN rate, exceptions must be kept to a minimum. Monitoring and quantification of the implications of proposed exceptions is an important task for national policy researchers.

A major issue for developing countries is to obtain 'credit' for autonomous liberalization. In the past, efforts to obtain such credit did not succeed in part because negotiations center on tariff bindings, and developing countries bound only few tariff rates (reflecting the non-reciprocity strategy that was a pillar of the special and differential treatment status) (Michalopoulos, 2001). The shift to full participation by developing countries implies that they have a lot to offer in terms of binding past unilateral liberalization—essentially the difference between applied rates and the much higher ceiling bindings or complete absence of bindings scheduled under the WTO. The problem confronting developing countries is that despite arguments that there is value to binding tariffs at levels above applied rates (see Francois and Martin, 2002a), in practice mercantilist negotiators are unwilling to 'pay' much for such bindings.<sup>8</sup> Instead, they want to see reductions in applied rates.

The challenge then is to design a mechanism that increases the mercantilist value of binding in the WTO negotiating context. One way to do this is to incorporate this in the formulae used for negotiation and the benchmark that is used to assess the outcome. Given that OECD countries have already bound virtually all their tariff lines at applied

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percentage cuts in very low tariffs rates, thereby allowing high tariffs not to be cut at all.

<sup>8</sup> See Mattoo and Olarreaga (2000) and Michalopoulos (2001) for discussions of credit. There is some confusion in the literature on giving developing countries 'credit' for past liberalization. This tends to be premised on the assumption that by having implemented unilateral reforms, these countries have lost negotiating coin. While true in a mechanistic sense, in practice the markets of most developing countries tend to be so small they have little if any negotiating power in the first place. What matters for the WTO are the tariff bindings, the extent to which unilateral reforms are locked-in. The resistance by most developing countries before the Uruguay Round to bind tariffs implied that implementing a credit rule was very difficult, if not impossible.

rates, any formula that gives weight to both *additional* bindings (increases in the ratio of the number of bound to unbound lines) and reductions in the absolute difference between bound and applied rates, will automatically give credit to developing countries in terms of attaining an agreed target level of liberalization. What this implies is that formulae need to focus on *bound* rates and not (or at least not exclusively) on applied tariff rates.<sup>9</sup>

More far-reaching than the foregoing suggestions would be to seek to remove all tariffs on industrial products traded among OECD countries. Proposals to this effect have been made periodically by industry groups. They argue that the low average level of such MFN tariffs, in conjunction with free trade treatment for goods produced in regional integration partner countries that is often impeded by rules of origin, implies that such tariffs have become ‘nuisance’ taxes, the collection of which generates costs that exceed the revenue collected. Setting a deadline—say 5 years—for the elimination of industrial tariffs on a nondiscriminatory basis would send a strong signal that development is being taken seriously. If this approach is pursued it would of course have implications for a formulae-based negotiating approach, which would then apply to agricultural tariffs of all WTO members and to the industrial tariffs of developing countries.

For the services negotiations, market access benchmarks and formulae to achieve them can also be developed. Given that there is only limited coverage of the sector-specific commitments on national treatment and market access in the GATS, the simplest benchmark would pertain to the sectoral coverage ratio and/or the number of sectors where no restrictions on national treatment and market access are maintained (Hoekman, 1996). For many developing countries the coverage of specific commitments is well below 50 percent of all services and modes of supply.<sup>10</sup> Binding the status quo would help reduce uncertainty, while pre-committing to future reform can help increase the relevance of the GATS.<sup>11</sup> Given the importance of movement of natural services

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<sup>9</sup> Francois and Martin (2002b) propose a specific modification of the so-called Swiss formula (used in the Tokyo Round) for the Doha negotiations and explore the implications of alternative specifications. For general discussions of formulae, see Panagariya (2002), Laird and Yeats (1987) and Stern (1976).

<sup>10</sup> Hoekman (1996) calculated that at the end of the Uruguay Round, developing countries made commitments on 15 percent of all service activities, with one quarter making commitments covering less than 3 percent of all services.

<sup>11</sup> Mattoo (2001) has argued that the GATS can serve as a pre-commitment device, i.e. a mechanism that locks in the government to a pre-announced set of reforms. While this is certainly the case, it should also be recognized that doing this may also establish a de facto upper bound on the extent of reforms. Lahouel

providers as a mode of contesting foreign service markets for developing countries, explicit quantitative targets for 'mode 4' visas could be considered—for example, a minimum share of total service sector employment. Even if not used as the focal point for negotiations, this can be a metric for judging the outcome of negotiations (Hoekman, Mattoo and Olarreaga, 2002).

*Rules for policies affecting market access*

WTO rules on policies such as subsidies, preferential trade, and contingent protection have an important bearing on market access (Finger, 1994). All three are on the Doha negotiating agenda.

*Subsidies.* The Doha language calling for elimination of agricultural export subsidies is clearly of great importance for developing countries that have a comparative advantage in the products affected, both directly and indirectly. While attaining this objective will undoubtedly be difficult, the benchmark is clear and is a good one. The primary need will be to establish a deadline to achieve the objective. Matters are more difficult when it comes to other subsidies. In principle, de-coupling subsidies from production makes sense, but in practice it will always be hard to achieve (enforce), given the plethora of potential instruments that can be used by governments. Even the EU—which goes far beyond the WTO in this area—has encountered recurrent difficulties in enforcing restrictions on the use of state aids within the Community. NAFTA does not even try to tackle this issue. A pragmatic approach has been suggested by Snape (1987, 1991), who argues for the principle of domestic subsidy freedom. Given that there is a rationale for subsidies in many contexts and that the revealed preference of many governments to use subsidies, it would appear more effective to focus on reduction of border barriers and the abolition of explicit export subsidies. This would automatically impose serious constraints on the feasibility of production subsidies by greatly increasing their costs.

*Antidumping.* The existence of antidumping induces rent-seeking behavior on the part of import-competing firms, and creates substantial uncertainty regarding the

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(2002) has noted that in the MENA region the country that used the GATS for pre-commitment purposes on telecoms—Tunisia—ended up reforming less than other MENA countries that did not make



conditions of market access facing exporters. Investigations have a chilling effect on imports (they are a signal to importers to diversify away from targeted suppliers) and are often facilitating devices for the conclusion of market sharing or price-fixing agreements with affected exporters (see Bloningen and Prusa 2002 for a survey of the evidence). Finger has been at the forefront of analysis of the incentive effects of antidumping, as well as the (rather unsuccessful!) fight against antidumping. The best policy in this regard has been known for a long time—abolish the instrument. Safeguards are a better and more honest instrument to address the problem antidumping is used for—providing import-competing industries with time to adjust to increased foreign competition (Finger, 1996). Greater discipline on the use of the instrument could involve determining the impact on the economy of imposing duties through so-called public interest clauses. As Finger has argued effectively, what is needed is to give opponents of imposing antidumping duties a chance to score goals—current legislation and WTO rules only impose weak procedural disciplines on import-competing industries and do not give users of imports a voice. Thus, on the antidumping playing field, import-competing interests are the only ones who can score (Finger, 2002). The problem is a political economy one: a necessary condition for reform is greater mobilization of countervailing forces in the domestic political arena.<sup>12</sup>

*Regionalism.* Much has been written about WTO rules on preferential trade (free trade agreements, customs unions, etc.). Finger (1993b) suggests that much of the literature proposing strengthened disciplines is misconceived in that it ignores political economy realities. These are twofold: on the one hand, the political objectives underlying the desire of many countries to pursue regional arrangements, which is hard to discipline, and on the other hand, the incentive of outsiders (non-members) to defend their negotiated access ‘rights’ to the markets of member countries through multilateral rounds of negotiations. The conclusion is that this is an area where the payoff to rule making will be low. The most powerful instrument to reduce discrimination is likely to be careful

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commitments—where unilateral reforms proceeded faster and went further.

<sup>12</sup> Given that no effort is usually made to determine whether markets are contestable, another way to reduce protectionist bias is for governments to put greater effort into determining whether the conditions alleged to give rise to ‘unfair trade’ actually exist. Suggestions that have been made in this regard include making antidumping conditional on a determination that the exporters home market is not contestable, and shifting away from an ‘injury-to-competitors’ standard towards an ‘injury to competition standard’ (Hoekman and

analysis of the effects of preferential trade agreements—this will help motivate countries to push for further reduction in the external tariffs of members. Hoekman and Kostecki (2001) argue that there is one exception where multilateral rule making could be beneficial—agreement to apply the general origin rules that have been developed by the World Customs Organization to all types of trade, whether preferential or nonpreferential.

Summing up, a good case can be made that the returns to rule making in these areas are likely to be low. A lesson from Finger (1991c) is that GATT/WTO rules that help to achieve agreed trade liberalization have been much more effective than rules that try to prescribe liberalization. The major engine of the WTO is reciprocity. Members have strong incentives to defend negotiated market access ‘concessions’ and this should be taken into account when considering additional rule making. In the case of domestic, non-export subsidies and preferential trade, much can be achieved by reducing external border barriers to trade. Thus, a good case exists that the primary benchmark from a development perspective should be the extent to which market access is liberalized, not so much the types of rules that are imposed on trade policies that indirectly affect market access conditions.

That said, it should be recognized that in the area of services, market access and regulation are closely intertwined, and that it is necessary to address regulatory policies that impede effective entry into services markets. A key question is how to do so in the GATS context. Services are activities where there is often need for some type of regulation to address market failures or achieve social (noneconomic) objectives. Moreover, technological developments have major implications for the design of appropriate regulatory instruments to ensure both efficiency and equity. A good case can be made that many of the ‘backbone’ services that are critical to development—transport, energy, telecoms, finance—increasingly have become industries where network externalities are important. An implication is that regulation to ensure that markets are contestable needs to focus not only on ‘traditional’ types of entry barriers—outright bans, licensing, etc.—but on the ability to connect to the network at a reasonable price, apply the relevant technologies, etc. Designing and enforcing policies to achieve this is

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Mavroidis, 1996).

anything but trivial, suggesting a cautious approach towards the setting of enforceable international standards in the WTO (see, e.g., Claessens 2002, Evans 2002 and Trollet and Hegarty, 2002 for recent sectoral analyses). In many cases, regulatory thinking and economic analysis is still evolving rapidly when it comes to network industries, and technological developments may make specific types of interventions redundant or counterproductive. Careful assessments of the implications of alternative types of international cooperation—which may be regional rather than multilateral—are required to determine what options might be most appropriate for developing countries.

#### *Non market access-related rule making*

Setting benchmarks for ‘behind-the-border’ regulatory norms is more difficult. However, doing so is important given that the Doha declaration calls for the launch of negotiations on subjects such as investment and competition policies. Given the general presumption that regulatory regimes should reflect local conditions, substantive harmonization often will be inappropriate. Finger has argued that what is needed in the behind the border regulatory areas is to design agreements that are flexible and encourage learning and experimentation. The easiest way to ensure this is not to include issues in the WTO. Alternatively, if included, flexibility can be maintained by limiting agreements on regulatory subjects to due process and transparency type requirements.

A more far-reaching alternative would be, using the language of EU law, to move towards ‘directives’—which identify desirable outcomes but leave it to national governments how to attain them—and away from ‘regulation’—which identify how an objective is to be attained. If such an approach is taken, a change in approach towards enforcement of agreements that entail substantial investment requirements or institutional strengthening should also be considered. Rather than binding dispute settlement that operates with the threat of trade sanctions (retaliation), a process of multilateral surveillance can be envisaged, complemented by efforts to assist governments attain the objectives underlying the particular agreement or set of rules (Hoekman, 2002).<sup>13</sup> This approach could be strengthened by linking implementation of resource intensive disciplines to the provision of funding by high-income WTO members to build

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<sup>13</sup> In the competition context some discussion has been devoted to a system of voluntary peer review. See

implementation capacity in low-income economies (Finger, 2001). This combination of initiatives could do much to reduce the perceived downside risk of engaging in negotiations on the Singapore or similar issues.

### *Special and differential treatment*

The foregoing approach implies an alternative to the traditional ‘differential and more favorable treatment’ method of pursuing the ‘development dimension’ in the WTO. Rather than seek to establish a two-tier system of rights and obligations it would be preferable to ensure that the WTO is fully supportive of development. Most of the provisions in WTO agreements calling for special and differential (S&D) treatment of developing countries are so-called ‘best endeavor’ commitments—they are not binding on high-income countries. No dispute settlement cases can be launched by a developing country government on the basis of non-delivery on promises embedded in WTO agreements. The same cannot be said of the WTO’s substantive disciplines—these are binding. Taking development seriously implies that traditional S&D should cease to be applied. Instead, what is needed is to ‘mainstream’ development in the WTO by moving towards a more cooperative, less litigious, model where the emphasis is put on multilateral monitoring and surveillance and working with countries to attain their objectives through the provision of effective financial and technical assistance.

One reason for the implementation problems that were encountered in the late 1990s was that the best-endeavors commitments on assistance that were made by OECD trade negotiators were not ‘owned’ by counterpart agencies in their governments that controlled the money (development assistance). Moving towards a more cooperative model on non-market access-related regulatory areas would be facilitated by involving development agencies more in the WTO process. Greater consultation and interaction between trade and development agencies can occur both in- and outside the WTO—through regular meetings of trade and development ministers, national workshops on the role of trade in the poverty-reduction strategy and active engagement by development institutions on issues that have a direct bearing on development. The existence of

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OECD (2002).

mechanisms to ensure that such interaction occurs could be another benchmark to assess the development relevance of the negotiating outcome.

### *Policy Research and Advocacy*

In his writings, Finger has emphasized that because the WTO is an exporter-driven institution it is very difficult for the WTO to be a forum for constructive and serious debate on issues of public policy and economic development. An implication is that developing countries themselves must defend their interests in the WTO, both by knowing what would help achieve their objectives and priorities and by having a strategy to attain those objectives—what to offer, how to design packages of proposals, etc. Effective advocacy in support of initiatives that support development requires building of partnerships and coalitions with trade and non-trade groups at home, as well as with foreign groups (e.g., consumer organizations, importers, the environmental lobby and global development NGOs).

In all of this analysis is critical. Identifying who gains and who loses from existing policies is important both to determine the need for policy change and to build support for such change. For example, documenting how specific OECD policies hurt the poor both at home and in developing countries can have a powerful effect on mobilizing support for welfare improving reforms. US cotton subsidies and trade barriers against peanuts hurt poor laborers and farmers in West Africa; fishing and coal subsidies have major detrimental effects on the environment; while ever tighter food safety norms with nonmeasurable public health benefits impose severe costs on developing country producers—e.g., aflatoxin standards (Wilson, 2002). As has been emphasized by Bhagwati and Panagariya (2000), building coalitions with NGOs and other groups that care about development is vital in generating the political momentum that is needed to improve access in sensitive sectors and improve the rules of the game in the WTO.

Collaborative research and cooperation between think tanks and policy institutes that focuses on how WTO disciplines can contribute to improving the investment climate and supporting economic growth prospects must be done at the national level. It will not be done by WTO members (trading partners)—their focus will be to identify changes in institutions and regulations that are expected to expand the sales of their exporters. The Uruguay Round—with a little bit of help by Mike Finger—taught us that implementation

of WTO agreements can cost serious money and that this may be money ill-spent. Understanding ex ante what the implications (costs and benefits) of WTO obligations will be is therefore vital. Trade policy analysis and strategy formulation needs to start with a development focus that identifies domestic priorities for action as opposed to being driven by the export interests of trading partners.

### *Aid for Trade: Capacity Building*

The Doha declaration contains numerous commitments to provide technical assistance. In March 2002, the WTO secretariat obtained commitments totaling CHF30 million to organize seminars in developing countries to improve awareness and understanding of the Doha process and agenda. In parallel, assistance is being provided to LDCs under the auspices of the Integrated Framework (IF) for trade-related technical assistance, a joint effort of six international agencies (IMF, ITC, UNCTAD, UNDP, World Bank and WTO), bilateral donors and LDC governments. This is an effort that Mike Finger played an important role in revitalizing and redesigning before retiring from the World Bank in 2001. The aim of the IF is to work with LDCs to undertake diagnostic studies to identify barriers to integration, assist countries determine if and how trade issues should be integrated into the national development strategy and to provide follow-up trade-related technical and financial assistance to address the constraints.

The need for technical assistance and capacity building extends well beyond the next WTO ministerial. Finger's work suggests that assistance should support analytical and operational research at the country level, aimed at mobilizing constituencies that have an interest in domestic policy reform and using multilateral initiatives to pursue this. Capacity-building programs to assist national stakeholders define trade policy reform priorities and objectives must be country-driven and target think tanks, key NGOs, parliaments and the private sector, as well as government officials. External policy advice and diagnostic studies can help in this process, but what matters fundamentally is active engagement in the policy formulation process by national stakeholders outside the public sector, given the political pressures and constraints government research bodies are subject to (Finger 1981a).

Commitment by the development community to enhance trade capacity through lending and grants to address needs in specific areas—e.g., transport, product standards certification or trade facilitation—is also important. Without supply side capacity countries will not be able to benefit from better market access. Whether building trade capacity rather than investing in other areas—such as health or education—is appropriate is a policy decision. The challenge for national policymakers is to identify the areas where the net social return to domestic action is highest; the challenge for the development community is to assist countries to do this and to provide support in the areas that are identified.

Capacity building in both senses of the term used above is a long-term endeavor. In contrast, many of the policy instruments impeding market access—tariffs, rules of origin, antidumping—can be removed in short order if the political will is there. The same applies to improving multilateral rulemaking. Technical assistance is not a substitute for rapid concerted action on market access and rule-setting that supports development.

#### **4. Concluding Remarks**

Market access—the traditional domain of the GATT/WTO—is critical in creating the incentives to use trade as a vehicle for poverty-reducing growth. It is an area where a lot remains to be done. Of much greater importance however is to improve domestic policies, strengthen institutions and enhance supply side trade capacity in developing countries. The latter has numerous dimensions—many of which play a major role in defining the investment climate. Most of the policy agenda associated with trade capacity enhancement is domestic—it is up to civil societies and governments to define beneficial policy changes and to set priorities in the context of an overall development strategy and to allocate scarce resources accordingly. Building trade capacity demands resources—as Finger would argue, it is not a free good, as market access is. Thus, the payoff for building trade capacity rather than using resources elsewhere is an investment decision, not a given.

Two major conclusions emerge from Finger's research regarding economic development and the WTO are particularly relevant to the Doha agenda. First, don't

neglect that old GATT magic (Finger, 1991c). There are still great gains to be had – and no mistakes to be made – from traditional trade liberalization. This liberalization agenda spans both industrialized nations and developing countries themselves, and includes not only goods but also services. Most of the potential gains from market opening are generated by own reforms. But action by high-income countries along the lines suggested previously would have a major impact in making the WTO more supportive of the growth prospects of developing countries. Elimination of industrial tariffs by OECD countries before a specific date, a major reduction in agricultural tariff peaks and escalation, a deadline for the phase-out and banning of export subsidies, and a significant expansion of service sector commitments, including mode 4 service supply opportunities on a nondiscriminatory basis would do much to eliminate the ‘development credibility’ deficit of the WTO.

Second, no matter what agenda is pursued in the WTO as regards non-border, regulatory policies, getting the development dimension right will require experimentation. Flexibility is needed in setting rules in areas that concern domestic regulatory regimes and institutions, particularly where there are significant ancillary or corollary investments and reforms needed. Developing countries must approach WTO negotiations with a firm view of their national priorities, and seek to ensure that multilateral obligations will assist in, and not detract from, the realization of development objectives. For the development community this implies priority should be given to strengthening the capacity to identify national priorities and to analyze the costs and benefits of proposed agreements in light of those priorities.

Finger has emphasized that multilateral rule making often will have a much lower payoff than creating mechanisms through which governments are helped to move towards welfare improving outcomes. Reciprocity and the fierce desire to protect negotiated market access concessions made the GATT the success it was. There is still a lot of life left in the GATT model. Developing countries have a lot to offer in market access terms, especially if services-related policies are considered and an approach towards negotiations is adopted that gives ‘credit’ for binding past liberalization in the WTO. As far as the domestic regulatory issues are concerned that many want to see on the WTO agenda, the approach of quid pro quo bargaining with resulting norms that are



ultimately enforced through the threat of trade sanctions should be reconsidered. An approach that is based more explicitly on focal points (“good practices”), international coopération (closer interaction between trade and development communities), and multilateral monitoring and surveillance is likely to be more effective than efforts to set ever more detailed regulatory standards. Whatever approach is adopted, research of the Finger variety—informative, numerate, policy relevant and accessible to non-specialists—is critical to ensure that the outcome of negotiations will support development. This must involve quantification and serious efforts to determine the costs and benefits of alternative options, as well as ex post assessments of outcomes.

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